

## Executive Summary

On February 2, 2006, the Centers for Medicare and Medicaid Services (CMS) announced that a reduction in drug costs had reduced both the federal government's first-year costs for the new Medicare Part D prescription drug benefit and beneficiaries' premiums. It was not expected that this reduction would affect the phased-down state contributions ("clawbacks") that help finance the program, but it has now been made public that the states will also see a reduction in their clawback costs.

## Background

The passage of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (MMA, P.L. 108-391) created a new Medicare Part D prescription drug benefit effective January 1, 2006. It was estimated at that time that six to seven million new Part D beneficiaries (15%) were eligible for both Medicare and Medicaid benefits. In the expectation that states would enjoy a fiscal windfall from the federal government's assumption of what have been shared Medicaid costs, MMA section 103(b) included a provision requiring a state payment to the federal government supporting the Part D program. This payment has been popularly known as the "clawback."

The clawback is effected through a monthly payment from the states to the federal government to reduce its net Part D costs. The payment is made the month after the cost is accrued, so only 11 payments will be made during calendar year 2006. The clawback is designed to be 90% of estimated state savings in 2006, declining to 75% over 10 years. FFIS and the Congressional Budget Office (CBO) both estimated that the clawback would total \$6 billion for the nine months of federal fiscal year (FY) 2006, \$9 billion in FY 2007 and \$10 billion in FY 2008 (see *Issue Brief 03-56 and 03-56a*).

## Clawback Formula

Based on data released to states in October 2005, FFIS estimated 2006 state clawbacks (see *Issue Brief 05-45*). A state clawback for a month is the product of a three-part multiplication:

1. Phase-down percentage (P). This is 90% for calendar year 2006, phasing down 1.67 percentage points per year until reaching 75% for calendar year 2015 and thereafter.
2. Per capita expenditures (PCE). This is the state's share of its per capita Medicaid expenditure for covered drugs for dual-eligible persons in calendar year 2003, increased by the growth in per capita prescription drug spending nationally (35.5%), and adjusted for the change in the state's relevant federal medical assistance percentage (FMAP). For persons in managed care, it is the actuarial value of prescription drug benefits that will be counted for the purposes of PCE.

Thus, once the baseline PCE is established, increases in drug spending

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nationally increase state clawback costs irrespective of the situation in a state. The recent reductions in most states' FMAPs also will increase their clawback costs.

3. Number of dual eligibles (DE). This is the number of dual-eligible persons in the month who are enrolled in the Part D program and have been determined by the state to be eligible for full Medicaid benefits. Since some dual eligibles are made so by state option, DE is the only part of the calculation somewhat under state control.

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## Updated Estimates

On February 2, 2006, CMS announced that drug costs underlying the Part D cost estimates had dropped substantially. Average beneficiary monthly premiums in 2006 were expected to be reduced from \$37 to \$25, and the federal cost from \$38.1 billion to \$30.5 billion. There was a mention in the announcement of long-run clawback reductions, but none of revising already published estimates for 2006.

It has now been made public that state clawbacks also will be reduced. The base PCE increase for 2006 is now estimated to be 22.4% over 2003 rather than 35.5%. Table 1 presents old state PCEs and the FFIS calculation of new ones using the new estimate. Overall, this change reduces the overall FFIS estimate of the first-year 2006 clawback cost from \$7.2 billion to \$6.5 billion.

States are also being given updated information concerning their fee-for-service enrollment and capitated months. FFIS does not have this data, and as such the estimates presented here may vary from amounts being made available to state agencies. In addition, the process of enrolling new beneficiaries will take some months, reducing clawback costs early in the process.

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Table 1

## Revised Clawback Estimates for Calendar Year 2006

(federal fiscal years; federal share as percent)

	Fee for Service		Per Capita Drug Cost		FMAP		Per Capita State Share		90% of State Share		Estimated Clawback (\$ 000s)
	Enrollment Months	Capitated Months	Previous	FFIS Estimate	2006	2007	FY 2006	FY 2007	FY 2006	FY 2007	
Alabama	1,117,981	0	\$223.43	\$201.83	69.51	68.85	\$62	\$63	\$55	\$57	\$62,258
Alaska	113,295	0	323.97	292.65	50.16	51.07	146	143	131	129	14,804
Arizona	75,763	886,524	166.33	150.25	66.98	66.47	50	50	45	45	43,132
Arkansas	726,523	0	204.64	184.86	73.77	73.37	48	49	44	44	31,827
California	9,561,215	1,653,769	218.98	197.81	50.00	50.00	99	99	89	89	998,246
Colorado	504,270	74,806	282.15	254.87	50.00	50.00	127	127	115	115	66,420
Connecticut	819,928	0	347.12	313.56	50.00	50.00	157	157	141	141	115,692
Delaware	114,689	0	278.22	251.32	50.09	50.00	125	126	113	113	12,953
District of Columbia	183,953	3,503	207.49	187.43	70.00	70.00	56	56	51	51	9,487
Florida	3,696,058	276,499	302.84	273.56	58.89	58.76	112	113	101	102	402,390
Georgia	1,690,072	0	250.98	226.72	60.60	61.97	89	86	80	78	134,699
Hawaii	280,254	1,287	201.87	182.35	58.81	57.55	75	77	68	70	19,178
Idaho	199,012	0	312.26	282.07	69.91	70.36	85	84	76	75	15,146
Illinois	2,279,309	1,915	283.62	256.20	50.00	50.00	128	128	115	115	263,002
Indiana	1,144,952	1,603	292.47	264.19	62.98	62.61	98	99	88	89	101,172
Iowa	626,601	0	299.44	270.49	63.61	61.98	98	103	89	93	56,132
Kansas	468,428	634	295.82	267.22	60.41	60.25	106	106	95	96	44,705
Kentucky	1,011,223	148,658	280.87	253.72	69.26	69.58	78	77	70	69	81,200
Louisiana	1,159,418	0	277.75	250.90	69.79	69.69	76	76	68	68	79,162
Maine	523,631	0	247.66	223.72	62.90	63.27	83	82	75	74	39,017
Maryland	670,916	32,426	296.51	267.84	50.00	50.00	134	134	121	121	84,774
Massachusetts	2,181,614	22,582	232.43	209.96	50.00	50.00	105	105	94	94	208,252
Michigan	2,132,637	120,251	210.22	189.90	56.59	56.38	82	83	74	75	167,345
Minnesota	660,365	445,689	286.19	258.52	50.00	50.00	129	129	116	116	128,667
Mississippi	1,606,789	0	217.95	196.88	76.00	75.89	47	47	43	43	68,413
Missouri	1,612,297	0	350.13	316.28	61.93	61.60	120	121	108	109	175,104
Montana	166,484	0	284.18	256.71	70.54	69.11	76	79	68	71	11,470
Nebraska	368,963	0	296.56	267.89	59.68	57.93	108	113	97	101	36,256
Nevada	195,016	715	268.56	242.60	54.76	53.93	110	112	99	101	19,422
New Hampshire	206,769	0	329.63	297.76	50.00	50.00	149	149	134	134	27,705
New Jersey	1,499,723	89,878	354.69	320.40	50.00	50.00	160	160	144	144	229,189
New Mexico	361,519	5,789	197.84	178.71	71.15	71.93	52	50	46	45	16,927
New York	6,755,062	20,004	261.50	236.22	50.00	50.00	118	118	106	106	720,190
North Carolina	2,600,478	0	290.98	262.85	63.49	64.52	96	93	86	84	223,017
North Dakota	135,104	0	248.68	224.64	65.85	64.72	77	79	69	71	9,405
Ohio	2,158,260	11,139	352.68	318.58	59.88	59.66	128	129	115	116	249,909
Oklahoma	867,980	0	215.26	194.45	67.91	68.14	62	62	56	56	48,659
Oregon	326,644	292,517	289.58	261.58	61.57	61.07	101	102	90	92	56,203
Pennsylvania	1,442,389	1,581,862	305.89	276.32	55.05	54.39	124	126	112	113	339,298
Rhode Island	343,857	12,431	282.03	254.76	54.45	52.35	116	121	104	109	37,639
South Carolina	1,300,192	3,298	200.13	180.78	69.32	69.54	55	55	50	50	64,943
South Dakota	135,886	0	289.14	261.19	65.07	62.92	91	97	82	87	11,329
Tennessee	2,957,934	0	324.12	292.78	63.99	63.65	105	106	95	96	281,344
Texas	3,903,272	0	221.54	200.12	60.66	60.78	79	78	71	71	276,371
Utah	214,996	0	330.39	298.45	70.76	70.14	87	89	79	80	16,976
Vermont	170,625	0	270.79	244.61	58.49	58.93	102	100	91	90	15,552
Virginia	1,131,055	0	304.89	275.41	50.00	50.00	138	138	124	124	140,183
Washington	1,049,078	2,003	282.70	255.37	50.00	50.12	128	127	115	115	120,709
West Virginia	501,747	0	262.84	237.43	72.99	72.82	64	65	58	58	29,006
Wisconsin	1,235,709	50,667	295.20	266.66	57.65	57.47	113	113	102	102	130,886
Wyoming	64,025	0	312.11	281.94	54.23	52.91	129	133	116	119	7,489
<b>Total</b>	<b>65,253,960</b>	<b>5,740,449</b>									<b>\$6,543,254</b>

Notes: Actual clawback amounts will be based on monthly participation; amounts provided here should be considered estimates only. Only 11 of the 12 2006 clawback payments will be made in 2006.

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